

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200

August 27, 2001

### **CBO Numbers Confirm That Bush Tax Cut Taps Social Security and Medicare Surpluses**

Dear Democratic Colleague,

The new budget numbers released today by the Congressional Budget Office confirm what we have been saying for over a year: the Bush tax cut forces the government to invade both the Social Security and Medicare Trust Fund surpluses. As the attached materials make clear, the government will tap \$29 billion from Medicare and \$9 billion from Social Security to fund government operations for this year alone. Over the next five years, the tax cut will force a \$30 billion diversion from the Social Security Trust Fund and a \$170 billion diversion from the Medicare Trust Fund.

As troubling as these figures are, they represent only the beginning of the bad news. Today's CBO projections are "baseline" estimates that do not assume *any* of the additional spending included in either the Bush budget or the Congressional budget resolution for defense, education, or Medicare prescription drugs. The figures also omit the cost of extending expiring tax credits, funding anticipated emergencies for natural disasters, or paying for the \$73.5 billion farm reauthorization bill which the Budget Resolution provided for.

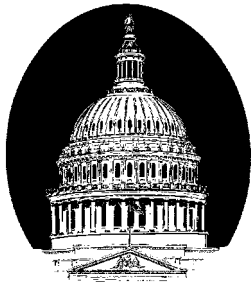
Despite White House denials, the President's tax cut and spending requests, not new Congressional spending, are driving the government back into the red. The President's budget *alone*, plus his tax policies and spending requests, invades the Social Security surplus for the next six years and Medicare for the next eight years. And that is without one dime of the so-called "irresponsible" Congressional spending that the White House now claims to be the "biggest" threat to the trust funds.

While the outlook in the short term is troubling, the worst consequences of the Bush budget lie in the future toward the end of the decade. Revenue losses due to the Bush tax cut will undermine the Medicare and Social Security surpluses just as the baby boom generation is beginning to retire.

Please feel free to call me or the Budget Committee's Democratic staff with any questions.

Sincerely,

John M. Spratt, Jr.  
Ranking Democratic Member



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### CBO Confirms Bush Budget Taps Social Security and Medicare Surpluses

August 27, 2001

**The Congressional Budget Office confirms today what Democrats have been saying for over a year: the Bush tax cut is so big, it forces the government to invade both the Social Security and Medicare surpluses.** According to CBO, the government must divert \$30 billion from the Social Security Trust Fund and \$170 billion from the Medicare Trust Fund over the next five years. The President claims the 2001 surplus is the 'second largest' in history. But this year alone, the government is actually in deficit and must tap \$29 billion from Medicare and \$9 billion from Social Security to fund routine government operations.

**In a sharp reversal of long-standing promises made by President Bush and GOP Congressional leaders, the President conceded on August 24 that he is prepared to tap the Social Security surplus.** The President finally admitted that his budget policies are driving the government to spend Social Security. Until now, there has been a broad national consensus among Republicans and Democrats that saving the Social Security and Medicare surpluses is essential to ensure the long-run solvency of both programs. Saving these surpluses and using them to pay down public debt helps lower interest rates and increase national savings and investment. Paying down the public debt ensures that the government will be better able to meet its long-term Medicare and Social Security obligations when the baby boom generation starts collecting benefits.

**The Medicare and Social Security diversions will be even greater than today's CBO numbers reflect.** The CBO projections are "baseline" estimates that assume only the continuation of current law with no changes in either spending (other than for inflation) or tax law. In other words, the CBO numbers do not assume *any* of the additional spending included either in the Bush budget or the Congressional budget resolution for defense, education or Medicare prescription drugs. Nor do they assume the extension of expiring tax credits which everyone, including the President, agrees must be extended. Nor do they assume the cost of anticipated emergencies for floods, hurricanes or fires. Nor they assume the cost of the farm bill reauthorization.

**Assuming the enactment of the President's requests and using the realistic CBO estimates rather than OMB's rosy scenarios, the government will be tapping Social Security for the next six years and Medicare for the next eight years in a row.** Once the President's additional spending (e.g. defense, prescription drugs and education) and tax cuts (e.g. repealing sunsets) are assumed, the White House will be tapping: \$128 billion of Social Security for the next six years in a row; and \$304 billion from Medicare for the next eight years in a row.

**Despite the White House's latest efforts to shift the blame, the President's tax cut and spending requests, not new Congressional spending, are driving the government back into the red.** The President's budget *alone*, with his tax policies and his spending requests, invades the Social Security surplus for the next six years and Medicare for the next eight years. And that is without one dime of the so-called "irresponsible" Congressional spending the White House now claims is the "biggest" threat to the trust funds.

**Last week, the Bush Administration admitted its tax cut is so big, it must break its promise to seniors and the uninsured.** On August 24, HHS Secretary Tommy Thompson said, "the reality is the economy is starting to contract and when it does, you don't have the money." He explained, "it is going to be very difficult" to find the money to fund a Medicare prescription drug program. When asked about the \$28 billion in the President's budget to fund health care for the uninsured, he added, "I don't know if it's going to be there."

**In only eight months, the Bush Administration has reversed the preceding eight years of fiscal improvement.** Until this year, the government's fiscal health had improved for eight years in a row, culminating last year with the largest budget surplus in history. Now we are swinging back into deficit spending because of the Bush tax cut.

**The 2001 budget deficit outside of Medicare and Social Security merely foreshadows the perilous fiscal course to which President Bush has committed the country for the next decade.** The real story is not the one-year invasion of the trust fund surpluses. That is just the first step of a multi-year budget centered on an exploding tax cut that will undermine Medicare and Social Security just as the baby boom generation is beginning to retire.

**CBO forecasts are more reliable than Bush/OMB projections.** Congressional Republicans should remember that they shut down the government twice in 1995 and 1996 until President Clinton agreed to use CBO rather than OMB budget estimates because CBO forecasts were more accurate. Unlike CBO, OMB uses scoring gimmicks to conceal the deficits. OMB:

- ▶ has returned to the bad old days of using rosy economic assumptions to make it appear that the President's numbers add up. OMB assumes a 3.2% annual growth rate in 2002, even though the "Blue Chip" economists project a 2.8% rate growth rate;
- ▶ plays games with the accounting of Social Security receipts to make it appear that the Bush budget doesn't invade the Social Security surplus in 2001;
- ▶ assumes corporations will pay \$5 billion in taxes earlier than they are due.

When President Bush conceded on August 24<sup>th</sup> that he was prepared to tap Social Security, he was implicitly conceding that the CBO forecasts are right.

# BUSH BUDGET IS NON-STARTER — SPENDS SOCIAL SECURITY SURPLUS THROUGH 2007

(CBO August assumptions)

<b>CBO BASELINE</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>'02-'11</b>
Unified Surplus	153	176	172	201	244	289	340	389	450	507	628	3,396
Social Security Surplus	162	174	190	204	224	242	262	283	303	323	345	2,550
Medicare Surplus	29	38	41	42	42	45	43	43	42	39	31	404
"Available" Surplus	-38	-36	-59	-45	-22	2	35	63	105	145	252	440
Medicare Surplus Spent	-29	-36	-41	-42	-22	0	0	0	0	0	0	-141
Social Security Surplus Spent	-9	0	-18	-3	0	0	0	0	0	0	0	-21
<b>BUSH BUDGET</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>'02-'11</b>
Bush MSR Tax Cuts	0	1	1	6	14	20	25	29	32	48	138	314
Bush Medicare Rx	0	0	0	14	20	21	22	25	27	29	32	190
Bush Defense Increase	0	10	13	23	19	22	22	22	22	22	22	197
Other Bush MSR Spending Changes	4	0	-4	-15	-8	-9	-2	-5	-5	-1	-7	-55
Resulting Net Interest	0	0	1	2	4	7	11	15	20	26	35	122
"Available" Surplus – Bush Budget	-42	-47	-70	-76	-70	-60	-43	-24	10	21	33	-327
Medicare Surplus Spent	-29	-38	-41	-42	-42	-45	-43	-24	0	0	0	-275
Social Security Surplus Spent	-13	-9	-29	-34	-28	-15	-0	0	0	0	0	-115
<b>BUSH BUDGET OMISSIONS</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>'02-'11</b>
Further Bush Defense Request	0	0	4	9	13	17	25	27	28	27	27	177
Average Historical Disasters	N.A.	2	4	5	6	6	6	6	6	7	7	55
Medicare Rx (Budget Resolution)	0	0	0	-4	1	7	17	19	20	23	26	110
New Farm Act	0	7	8	8	8	7	7	6	6	7	7	74
Alternative Minimum Tax	0	0	0	0	2	12	22	30	39	48	54	208
Tax Extenders	0	1	4	4	5	7	8	9	11	13	13	75
Resulting Net Interest	0	0	1	2	4	7	11	16	23	31	40	134
Remaining "Available" Surplus	-42	-58	-91	-100	-110	-123	-139	-138	-124	-135	-141	-1,159
Medicare Surplus Spent	-29	-38	-41	-42	-42	-45	-43	-43	-42	-39	-31	-406
Social Security Surplus Spent	-13	-20	-50	-58	-68	-78	-96	-95	-82	-96	-110	-753

# THE BUSH TAX CUT MAKES THE BUDGET RESOLUTION UNWORKABLE

(CBO August assumptions)

<b>CBO BASELINE</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>'02-'11</b>
Unified Surplus	153	176	172	201	244	289	340	389	450	507	628	3,396
Social Security Surplus	162	174	190	204	224	242	262	283	303	323	345	2,550
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"Available" Surplus	-38	-36	-59	-45	-22	2	35	63	105	145	252	440
Medicare Surplus Spent	-29	-36	-41	-42	-22	0	0	0	0	0	0	-141
Social Security Surplus Spent	-9	0	-18	-3	0	0	0	0	0	0	0	-21
<b>BUDGET RESOLUTION</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>'02-'11</b>
Non-Reconciled Tax Cuts	0	3	3	2	2	3	1	1	1	1	1	20
Medicare Rx and Home Health	0	0	1	11	22	29	40	46	49	54	61	314
Other Health	0	7	13	14	6	7	6	6	6	6	6	77
Agriculture	N.A.	7	8	8	8	7	7	6	6	7	7	74
Veterans	0	0	0	1	1	1	1	1	0	0	0	6
All Other (Budget Resolution)	4	8	3	-4	-2	-4	0	-0	-0	-0	-4	-3
Resulting Net Interest	0	1	2	4	6	9	12	16	20	25	30	124
"Available" Surplus – Bud. Res.	-42	-63	-89	-81	-66	-49	-33	-13	22	51	150	-172
Medicare Surplus Spent	-29	-38	-41	-42	-42	-45	-33	-13	0	0	0	-254
Social Security Surplus Spent	-13	-25	-48	-39	-24	-4	0	0	0	0	0	-140
<b>BUDGET RESOLUTION OMISSIONS</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>'02-'11</b>
Bush Defense Request	0	10	13	23	19	22	22	22	22	22	22	197
Average Historical Disasters	N.A.	2	4	5	6	6	6	6	6	7	7	55
Alternative Minimum Tax	0	0	0	0	2	12	22	30	39	48	54	208
Tax Extenders	0	1	4	5	9	12	14	16	18	21	21	122
Resulting Net Interest	0	0	1	3	5	7	11	15	21	27	34	123
Remaining "Available" Surplus	-42	-76	-111	-117	-107	-108	-108	-103	-85	-73	13	-876
Medicare Surplus Spent	-29	-38	-41	-42	-42	-45	-43	-43	-42	-39	0	-375
Social Security Surplus Spent	-13	-38	-70	-75	-65	-63	-65	-60	-43	-34	0	-514

# CBO CONFIRMS THAT THE "AVAILABLE" SURPLUS IS GONE — WITH NO MONEY FOR KEY INITIATIVES

(CBO August assumptions)

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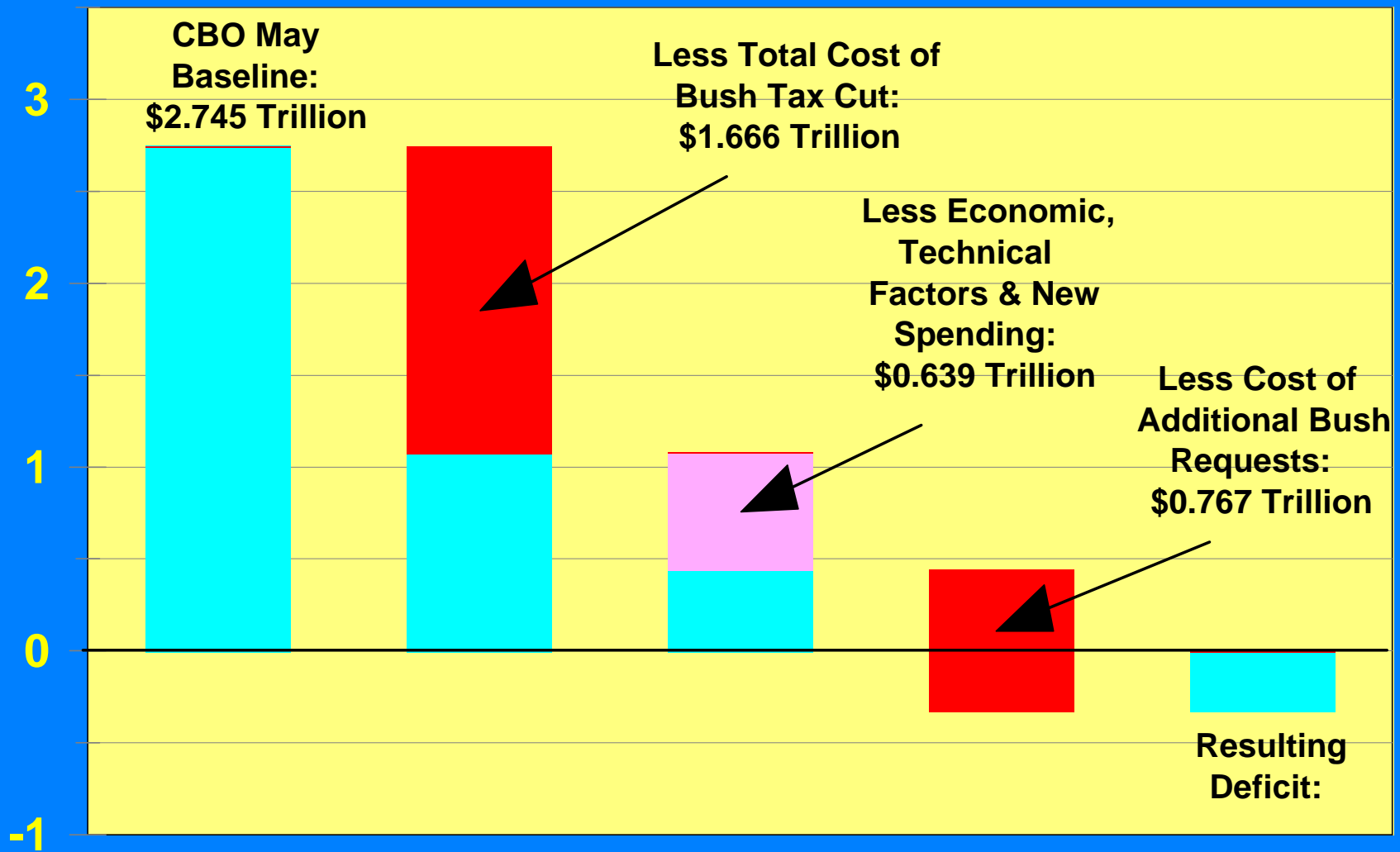
# THE SURPLUS IS GONE — WHERE DID IT GO?

(CBO August assumptions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	'02-'11
April Baseline Unified Surplus	275	304	353	400	437	508	578	641	718	806	883	5,629
Economic Adjustments	-25	-48	-54	-50	-40	-31	-23	-16	-9	-6	-5	-282
Technical Adjustments	-16	-27	-20	-18	-15	-13	-13	-16	-17	-18	-19	-176
Adjusted Baseline Unified Surplus	234	229	279	332	382	464	542	609	692	782	859	5,171
Social Security Surplus	162	174	190	204	224	242	262	283	303	323	345	2,550
Medicare Surplus	29	38	41	42	42	45	43	43	42	39	31	404
<b>Adjusted Available Surplus</b>	<b>43</b>	<b>17</b>	<b>48</b>	<b>86</b>	<b>116</b>	<b>177</b>	<b>237</b>	<b>283</b>	<b>347</b>	<b>420</b>	<b>483</b>	<b>2,215</b>
Enacted Tax Cut and Resulting Debt Service	76	42	99	122	128	163	189	209	228	260	216	1,656
All Other Enacted Policy	6	11	9	9	10	12	13	12	14	15	15	118
<b>Remaining Baseline "Available" Surplus</b>	<b>-38</b>	<b>-36</b>	<b>-59</b>	<b>-45</b>	<b>-22</b>	<b>2</b>	<b>35</b>	<b>63</b>	<b>105</b>	<b>145</b>	<b>252</b>	<b>440</b>

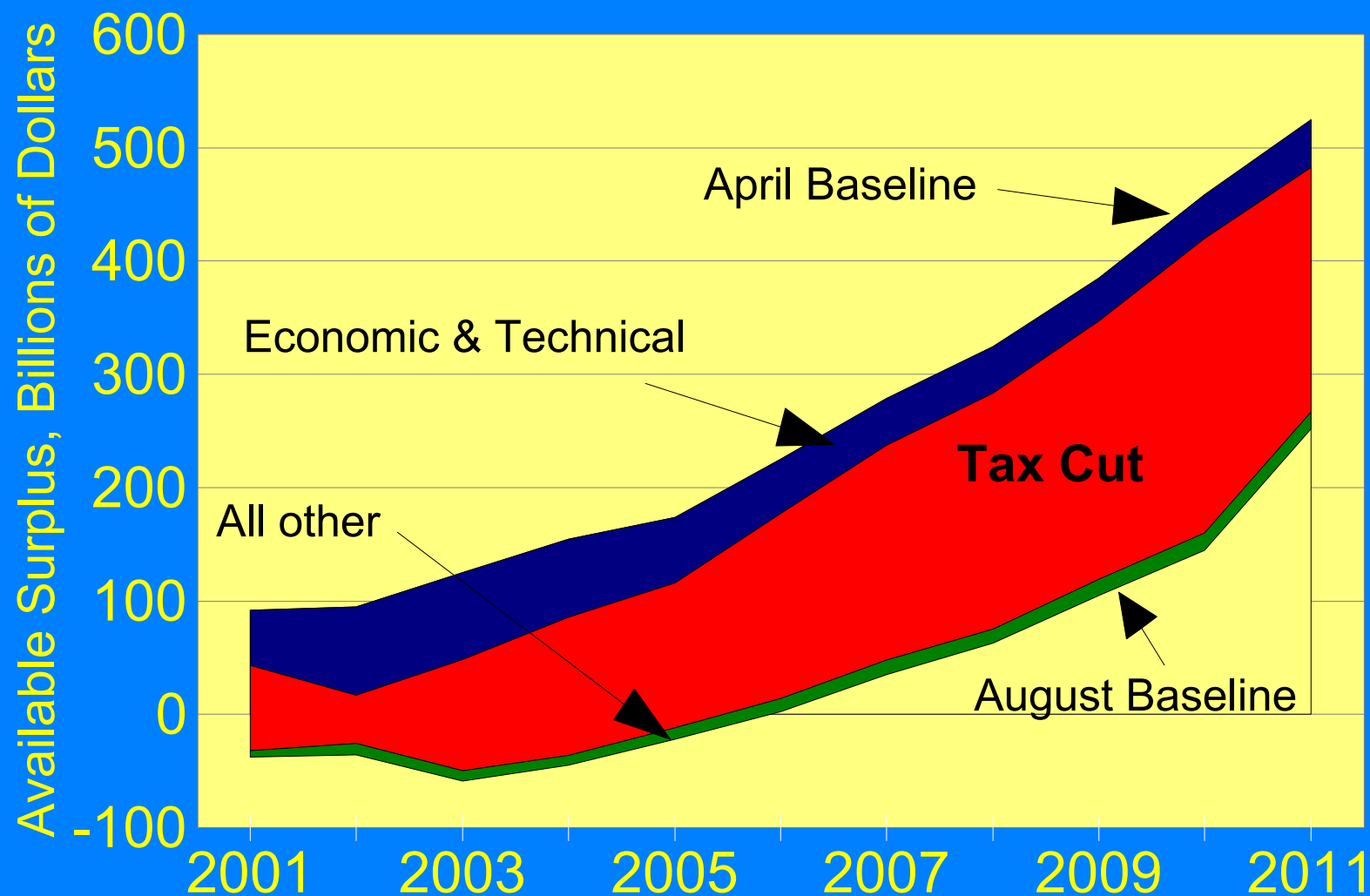
# Bush Budget Wipes Out Surplus

## 10-Yr Available Surplus, \$ Trillions





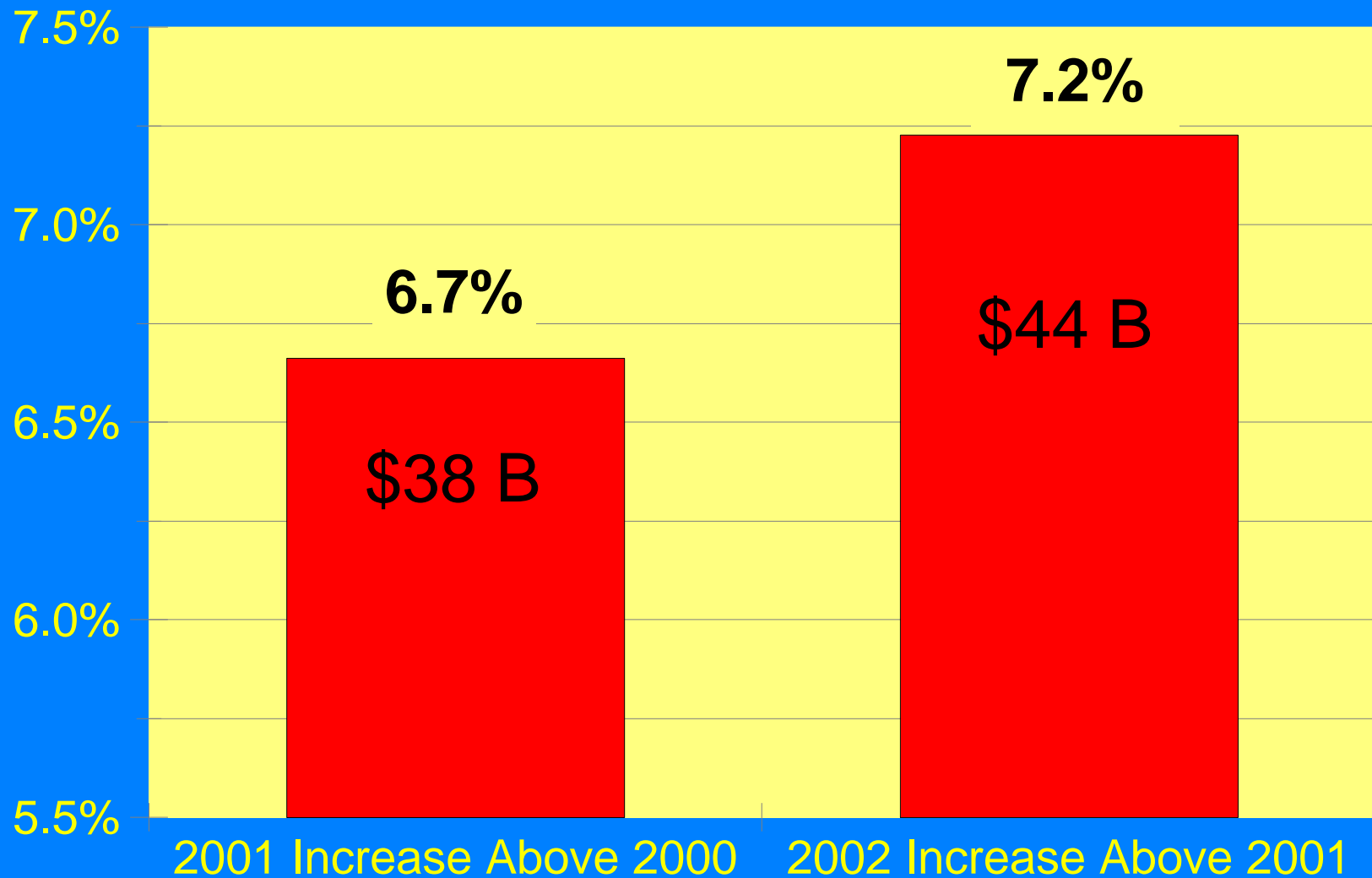
# The Problem Is The Tax Cut



# **OMB Estimates Rely on Gimmicks**

- 1. Use rosy economic assumptions.**
- 2. Exclude the President's full defense buildup after 2002.**
- 3. Allocate too little for a Medicare prescription drug benefit.**
- 4. Omit the cost of extending tax credits due to expire next year.**
- 5. Use an accounting gimmick with Social Security receipts to make 2001 look better.**
- 6. Rely on a two-week delay of \$33 billion in corporate tax payments to make 2002 look better.**
- 7. Assume corporations will pay \$5 billion in taxes earlier than required.**

# The Bush Budget Spends More: 2001 vs. 2002 Appropriations



Note: For consistency, advance appropriations and 2001 supplementals are excluded.

# Broken Republican Promises to Save Medicare and Social Security Surpluses

- **President George W. Bush** — “Every dollar of Social Security and Medicare tax revenue will be reserved for Social Security and Medicare.”  
(February 24, 2001; Radio Address to the Nation)
- **House Speaker Dennis Hastert** — “We are going to wall off Social Security trust funds and Medicare trust funds...And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That’s in the parameters of our budget and we are not going to dip into that at all.” (March 2, 2001; *BNA Tax Reporter*)
- **House Majority Leader Richard Armey** — “We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we ’ll do that.”  
(July 11, 2001; *BNA Tax Reporter*)
- **Votes by House Republicans** — House Republicans have voted almost unanimously seven times since 1999 to establish lockboxes to protect both the Social Security and Medicare surpluses. They even voted to prohibit the government from displaying the budget surplus using Social Security Trust Fund money.
- **Votes by Senate Republicans** — Senate Republicans have voted almost unanimously twice over the past two years to establish lockboxes protecting the Social Security and Medicare surpluses.